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TOY MANUFACTURERS OF AMERICA

FINANCIAL AND OPERATING RATIO REPORT

1980

prepared by Touche Ross & Co.

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TOY MANUFACTURERS OF AMERICA

FINANCIAL AND OPERATING RATIO REPORT
(ANNUAL BUSINESS SURVEY)

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TO: Members Participating in the Toy Manufacturers of America
1980 Financial and Operating Ratio Report

Gentlemen:

Your 1980 Financial and Operating Ratio Report has been organized to provide you with pertinent toy industry financial data. To facilitate a comparison of your current figures with other members of the toy industry, we suggest that you insert your 1980 financial data in the spaces provided.

The report, except for portions stated, has been confidentially compiled by us at the direction of the Toy Manufacturers of America. Since the information used in producing this report has not been audited by us, we express no opinion on this information.

Your participation in this project is appreciated, and we solicit your comments and suggestions to further improve this report and increase member participation.

Touche Ross & Co.

HOW TO USE THE REPORT

A comparison of your performance to the industry data can be informative and revealing. Your firm's operating experience may be different. As a result, some of your figures may vary from the averages shown. These differences are not necessarily good or bad but may suggest that further analysis and investigation be undertaken. A careful review of prior years' ratios and statistics may reveal trends indicative of certain problem areas which require management's attention.

In order to facilitate a comparison of your Firm's performance with that of comparable industry members, each statement has a blank column headed "Your Firm." Entry of your figures into these columns provides a quick comparison of your and other firms' operating performance.

In analyzing your own performance, focus on your key ratios as they compare in each of the key areas – Sales, Profitability and Asset Management.

The following are some of the questions that you should ask:

Sales

- Is your growth comparable to your competitor?
- Has your growth been steady or erratic?
- Have you been generating sufficient sales based upon your asset and equity investments?
- Is your rate of growth greater than the rate of inflation?

Profitability

- Is your gross profit acceptable?
- Is your net income on sales satisfactory?
- How does your return on equity and total assets compare to others?
- Are your operating expenses in line with that of your competitors?

Asset Management

- Are you in a good position to meet your maturing short-term credit obligations?
- How does your collection period compare with your competitors?
- Is your inventory turnover satisfactory?
- Do you have too much debt financing?
- Are you over-invested in fixed assets?

A review and comparison of your operating statistics with those of your industry will enable you to obtain answers to many of the above questions.

NOTES

1. Prior year's information set forth on schedules of Operating Trends was compiled from the information furnished by members participating in the 1980 Report.

2. On the Selling Outlet Classification analyses, the number of 1980 reporting companies is listed in a bracket < >.

3. The compilation by Product Line reflects the product which most characterizes each company as provided on the 1980 Questionnaire.

OPERATING TRENDS

The following tables summarize the key operating percentages for the past four years as reported by participating members. The operating trends were compiled from information furnished by the current years' cooperating members some of which may not have participated in prior years' projects.

SALES INCREASES (DECREASES) – PERCENTAGE OF PRIOR YEAR SALES

	1977	1978	1979	1980
– Under $7 Million Gross Annual Sales	(3.2)	(9.9)	39.4	(11.1)
– $7 – $35 Million Gross Annual Sales	13.2	7.6	13.4	(.1)
– Over $35 Million Gross Annual Sales	11.0	11.1	25.0	7.8
– All Companies	11.2	10.6	23.6	4.9

OPERATING TRENDS

GROSS PROFITS – PERCENTAGE OF SALES

	1977	1978	1979	1980
– Under $7 Million Gross Annual Sales	18.4	19.7	23.6	27.8
– $7 – $35 Million Gross Annual Sales	33.8	31.9	30.5	27.4
– Over $35 Million Gross Annual Sales	39.0	38.2	41.4	41.0
– All Companies	38.3	37.4	40.1	39.5

OPERATING TRENDS

OPERATING EXPENSES – PERCENTAGE OF SALES

	1977	1978	1979	1980
– Under $7 Million Gross Annual Sales	23.8	24.4	21.0	22.7
– $7 – $35 Million Gross Annual Sales	21.4	21.7	23.0	24.8
– Over $35 Million Gross Annual Sales	28.3	29.7	30.2	31.0
– All Companies	27.4	28.7	29.4	30.3

OPERATING TRENDS

INCOME (LOSS) BEFORE INCOME TAXES – PERCENTAGE OF SALES

	1977	1978	1979	1980
– Under $7 Million Gross Annual Sales	(5.5)	(7.5)	.1	1.6
– $7 – $35 Million Gross Annual Sales	11.5	8.5	5.3	(.6)
– Over $35 Million Gross Annual Sales	9.5	6.8	10.2	7.3
– All Companies	9.7	7.0	9.6	6.4

TOY MANUFACTURERS OF AMERICA, INC.
1980 FINANCIAL AND OPERATING RATIO REPORT
SUMMARY – INCOME STATEMENT
ALL PRODUCT LINES

	ALL COMPANIES	YOUR FIRM	SALES LESS THAN $7MM	SALES $7MM TO $35MM	SALES OVER $35MM
	AVERAGE		AVERAGE	AVERAGE	AVERAGE
Returns – % to gross sales	3.1		4.0	1.8	3.3
Discount and allowances - % to gross sales	4.1		5.5	6.3	3.8
Net Sales	100.0	100.0	100.0	100.0	100.0
Cost of Goods Sold	60.5		72.2	72.6	59.0
Gross Profit	39.5		27.8	27.4	41.0
Operating Expenses					
Administrative	10.1		9.7	8.5	10.3
Shipping	3.9		2.6	4.1	3.9
Selling (including Royalties)	16.3		10.4	12.2	16.8
Total	30.3		22.7	24.8	31.0
Other (Income) or Expenses	2.8		3.5	3.2	2.7
Income (Loss) Before Taxes	6.4		1.6	(.6)	7.3
Key Ratios					
Sales Performance					
Sales per dollar of tangible assets	1.7		.7	1.7	1.8
Sales per dollar of invested capital	3.2		2.0	3.0	3.3
Sales increase (decrease) %	4.9		(11.1)	(.1)	7.8
Profitability Performance					
Income on sales (%)	6.4		1.6	(.6)	7.3
Gross Profit (%)	39.5		27.8	27.4	41.0
Return on tangible assets (%)	11.1		(4.8)	(1.6)	12.7
Return on invested capital (%)	20.6		(13.0)	(2.9)	23.7

TOY MANUFACTURERS OF AMERICA, INC.
1980 FINANCIAL AND OPERATING RATIO REPORT
SUMMARY – BALANCE SHEET
ALL PRODUCT LINES

	ALL COMPANIES	YOUR FIRM	SALES LESS THAN $7MM	SALES $7MM TO $35MM	SALES OVER $35MM
	AVERAGE		AVERAGE	AVERAGE	AVERAGE
Assets					
Cash	4.8		6.1	2.2	5.1
Receivables	29.7		32.7	35.1	29.1
Inventory	25.7		32.6	27.6	25.4
Marketable securities	1.6		0.0	.1	1.8
Other current	1.7		3.9	2.1	1.7
Total Current	63.5		75.3	67.1	63.1
Fixed Assets (includes Capitalized Leases)	21.6		22.1	29.6	20.7
Other	9.4		2.5	1.9	10.2
Total Tangible Assets	94.5		99.9	98.6	94.0
Intangible Assets	5.5		.1	1.4	6.0
Total	100%	100%	100%	100%	100%
Liabilities					
Accounts Payable	9.2		10.1	9.9	9.2
Notes Payable	2.2		22.2	6.7	1.6
Current Portion – Long-term Debt	1.0		1.0	2.5	.8
Taxes	.8		(.3)	(1.8)	1.1
Other Current	10.2		3.7	11.1	10.1
Total Current	23.4		36.7	28.4	22.8
Long-term (includes lease obligations)	7.2		9.2	17.5	6.0
Other	9.8		0.0	1.6	10.8
Total Liabilities	40.4		45.9	47.5	39.6
Stockholders' Equity	59.6		54.1	52.5	60.4
Total	100%	100%	100%	100%	100%
Key Ratios					
A. Asset management measures					
Current ratio (Times)	2.7		2.0	2.4	2.8
Accounts receivable					
Collection period (days)	117.8		121.8	93.0	120.8
Percentage working capital	136.3		115.57	106.2	140.0
Inventory					
Turnover (times)	3.3		1.8	3.4	3.3
Percentage working capital	75.4		127.6	87.0	73.8
Long-term debt to invested capital (%)	13.5		16.9	33.9	11.2
Fixed asset replacement rate	151.6		4.4	109.0	164.5

TOY MANUFACTURERS OF AMERICA, INC.

1980 FINANCIAL AND OPERATING RATIO REPORT
SELLING OUTLET CLASSIFICATION

ALL PRODUCT LINES

	ALL COMPANIES	YOUR FIRM	SALES LESS THAN $7MM	SALES $7MM TO $35MM	SALES OVER $35MM
	AVERAGE		AVERAGE	AVERAGE	AVERAGE
Sales (% gross sales)					
Selling Outlet Classifications:					
Toy/Sporting Goods Store	20.2		8.2	10.8	21.4
Department Store	6.6		7.7	9.1	6.2
Chain and mail order	22.6		5.4	27.6	22.1
Discount	27.2		1.0	24.8	27.5
Other	23.4		77.7	27.7	22.8
Total Sales	**100%**	**100%**	**100%**	**100%**	**100%**
Base: Reporting Companies	(34)		(3)	(15)	(16)

TOY MANUFACTURERS OF AMERICA, INC.
1980 FINANCIAL AND OPERATING RATIO REPORT
OPERATING STATISTICS
ALL PRODUCT LINES

Operating Expenses:	ALL COMPANIES	YOUR FIRM	SALES LESS THAN $7MM	SALES $7MM TO $35MM	SALES OVER $35MM
	AVERAGE		AVERAGE	AVERAGE	AVERAGE
Administrative Expenses:					
Salaries and wages	2.7		4.4	3.3	2.6
Payroll taxes and benefits	.8		.2	.8	.8
Operating supplies	.3		.5	.3	.3
Purchased Services	1.3		2.5	.8	1.3
Facilities charges	.8		0.0	.7	.8
Research & development	2.5		.1	1.7	2.7
Miscellaneous or other	1.7		2.0	.9	1.8
Total administrative expenses	**10.1**		**9.7**	**8.5**	**10.3**
Shipping Expenses:					
Salaries and wages	.8		.3	1.0	.7
Payroll taxes and benefits	.2		.1	.2	.2
Operating supplies	.1		.7	.1	.1
Freight costs	2.2		1.4	2.2	2.2
Purchased services	.1		0.0	.1	.2
Facilities charges	.4		.1	.5	.4
Miscellaneous or other	.1		0.0	0.0	.1
Total shipping expenses	**3.9**		**2.6**	**4.1**	**3.9**
Selling Expenses:					
Direct sales – salaries and commissions	1.7		4.3	3.8	1.3
Administrative salaries and commissions	.8		1.3	.8	.8
Merchandising and designing salaries	.3		.9	.2	.3
Payroll taxes and benefits	.4		.2	.3	.4
Operating supplies	.4		.2	.2	.4
Purchased services	.7		.6	.4	.7
Facilities charges	.3		.1	.2	.4
Advertising	10.4		2.0	5.4	11.1
Miscellanous or other	1.3		.8	.9	1.4
Total selling expenses	**16.3**		**10.4**	**12.2**	**16.8**
Total operating expense	**30.3**		**22.7**	**24.8**	**31.0**
Other:					
(Other Income)	(1.3)		(1.8)	(.6)	(1.4)
Interest expense	2.3		5.2	3.3	2.1
Other deductions	1.8		.1	.5	2.0
Total Other (income) or expense	**2.8**		**3.5**	**3.2**	**2.7**
Supplemental Information					
Data processing	5.9		0.0	1.1	6.5
Royalties	2.3		.2	1.2	2.4
Bad Debts	1.0		1.8	.6	1.1
Capital expenditures	3.7		.7	4.6	3.6
Depreciation and amortization	2.4		16.5	4.3	2.2

WHO MADE THIS REPORT POSSIBLE

Thirtysix manufacturers with sales in excess of $2.68 billion reported their confidential figures to Touche Ross & Co. To assist you in evaluating the data contained in this report, we have analyzed the participants by dollar sales and product line.

By Dollar Sales
(000's Eliminated)

Volume Group		Number of Participants
From	To	
0	7 Mill	3
7	35 Mill	16
35	—Mill	15
		34
0	10 Mill	4
10	20 Mill	7
20	50 Mill	9
50	100 Mill	5
100	— Mill	9
		34

By Product Line
(See Note 3)

Category	Number of Participants
Dolls and stuffed toys	4
Games	8
Power Driven Toys	4
Infant and Preschool Toys	8
Crafts	4
Riding Vehicles and Sporting Goods	3
General Toy Category	3
	34

EXPLANATION OF KEY RATIOS

A. ASSET MANAGEMENT MEASURES: *(See Summary Balance Sheet)*

CURRENT RATIO (TIMES)

Calculation: Total current assets (at end of year) divided by the total current liabilities (at year-end).

Significance: The ratio indicates the potential ability of the Company to pay its current obligations as they come due.

Accounts Receivable:

COLLECTION PERIOD (DAYS)

Calculation: Period – 360 days divided by the result obtained after dividing net sales by the average monthly accounts receivable.

Significance: Shows the average number of days required to collect the accounts receivable.

PERCENTAGE OF WORKING CAPITAL (%)

Calculation: Average monthly accounts receivable divided by the average working capital.

Significance: Indicates the percentage of the working capital invested in the accounts receivable.

Inventory:

TURNOVER (TIMES)

Calculation: The cost of goods sold divided by the average periodic inventory (average of the beginning and ending inventory for the year used if monthly inventories are not available).

Significance: Reflects the number of times the average inventory is sold (or turned over) during the year.

PERCENTAGE OF WORKING CAPITAL (%)

Calculation: Average periodic inventory divided by the average working capital.

Significance: Shows the percentage of working capital invested in inventory.

LONG-TERM DEBT TO INVESTED CAPITAL (%)

Calculation: Determine by dividing the average long-term debt by the average invested capital (stockholders' equity less intangible assets).

Significance: Indicates the relationship of owner's tangible equity to long-term indebtedness.

FIXED ASSETS REPLACEMENT RATE

Calculation: Annual capital expenditures for fixed assets divided by the annual depreciation and amortization.

Significance: Indicates the rate at which the Company is replacing its fixed assets and whether replacements are being financed from depreciation and amortization.

B. SALES PERFORMANCE: *(See Summary Income Statements)*

SALES PER DOLLAR OF TANGIBLE ASSETS

Calculation: Net sales divided by average tangible assets.

Significance: Indicates the dollar sales generated by each dollar of average tangible assets for the year.

SALES PER DOLLAR OF INVESTED CAPITAL

Calculation: The net annual sales were divided by the average invested capital (stockholders' equity less intangible assets).

Significance: The ratio reflects the number of times tangible owners' equity turns over in relation to net sales.

SALES INCREASE OR (DECREASE) (%)

Calculation: Annual increase or decrease in net sales divided by prior year's net sales.

Significance: Indicates the percentage of change in annual net sales.

C. PROFITABILITY PERFORMANCE: *(See Summary of Income Statements)*

RETURN ON TANGIBLE ASSETS (%)

Calculation: Net income before taxes divided by average tangible assets.

Significance: Measures the rate of return prior to provision for income taxes in relation to average total tangible assets employed.

RETURN ON INVESTED CAPITAL (%)

Calculation: Net income before taxes divided by average invested capital (stockholders' equity less intangible assets).

Significance: This percentage measures the income before taxes earned in relation to average invested capital.